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CONANT — FUTURE OF THE LIMPING STANDARD

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THE FUTURE OF THE LIMPING STANDARD

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Reprinted from Political Science Quarterly, Vol. XVIII, No. 2

BOSTON, U.S.A.
GINN & COMPANY, PUBLISHERS
The Athenæum Press
1903

THE FUTURE OF THE LIMPING STANDARD.

EVENTS are stronger than theories in shaping economic tendencies. This has been illustrated in a striking manner by the monetary history of the past generation. The limping standard, forced by the logic of events upon France and the other countries of the Latin Union and upon the United States, while deplored by many in those countries as an evil, has contributed to diminish among the civilized nations the pressure for gold, and has permitted several important States to obtain, without too much difficulty, the supply of the yellow metal necessary to the inauguration of the gold standard. There are difficulties about the operation of the limping standard in the countries where it is now in force, growing out of circumstances which will be hereafter discussed; but these difficulties can be avoided where the creation of a coinage system can be undertaken in the light of present facts, and the limping standard may be made the effective means of restoring the par of exchange between the countries of the East and West, so long broken by the fall in the gold price of silver, and thereby of forging anew the link of commercial relationship which is so vital to the prosperity of both hemispheres.

The limping standard is so called because silver limps along behind gold, without enjoying the privilege of free coinage accorded to the standard metal, but nevertheless finding a large use as money, and kept at par with the standard. From a theoretical standpoint, the limping standard may be defined as a monetary system requiring free coinage of the standard metal, with the concurrent use of token coins of other metals, such coins having full legal tender power, but kept at par with the standard by Government control of their output.

The limping standard came about in the countries of the Latin Union as a natural result of the wide departure of the relative bullion values of silver and gold from the official ratio fixed by the coinage laws. These causes were considered by the law-making powers of those countries as compelling action to prevent the loss

of their gold and their descent to the silver basis. It was recognized in all these countries that gold was the preferred money of modern commerce by reason of its large value in small bulk, its facility of transportation, and its availability for foreign trade and bank reserves. But it was recognized from the beginning that none of these countries could well afford to part with their entire mass of silver at its bullion price, and that the attempt to part with it at the price prevailing at any given date would so load the market with silver bullion that it could be sold only at a still greater loss, if it could be sold at all. Events, rather than deliberate choice, forced upon the countries of the Latin Union the continued use of their silver coins. This was not entirely the case in the United States, where political reasons led to deliberate legislation in favor of silver coinage, but even this legislation, badly conceived and disastrous as it was, may be attributed to the blind instinct which preferred some form of currency during the days of national poverty to the struggle with the richer nations for the existing stock of gold.

If the annual gold production of the world had continued nearly stationary in the face of a growing demand, as was the case from 1873 to 1888, and the countries of the Latin Union and the United States had deliberately sought to reduce their silver coinage to the proportions of subsidiary money of limited tender, as in the monetary systems of Great Britain and Germany, then indeed, with the constantly expanding demand for gold in the arts, "the scramble for gold" which has been the nightmare of bimetallic dreams might have become a reality. Such an influence was probably more felt about the time of the international conference of 1881 than even at a later date, although the anxiety then expressed on the subject of the scarcity of gold was as exaggerated as the fears felt in 1850 over the abnormal increase of gold. It was at the conference of 1881 that the German delegates came forward with the suggestion that Germany would check her sales of old silver bullion, withdraw small gold pieces, and notes of small denominations, and break up her large silver coins into smaller pieces.[1] It was of especial significance that such

[1] International Monetary Conference of 1881, pp. 29–30.

proposals should come from Germany, because that Government had refused to send delegates to the international conference of three years before. It was at the Conference of 1881 also that Mr. Broch, the delegate of Norway, arguing strongly in favor of the gold standard among the civilized countries of the West, declared that the true field for silver was to be found.

> Not by arbitrarily raising the value of this metal in Europe and America, but by encouraging its use in the countries of the Orient which still have a preferance for it; in that vast Chinese Empire scarcely yet opened to Europe, in that immense African continent, which is to-day invaded from all sides, and where trade is still carried on under the primitive form of barter, but where it would no doubt be easy to introduce the use of silver money.[1]

These expressions of Mr. Broch anticipated to some extent the actual course of events. The influence of the *status quo* always imposes itself with compelling force upon statesmen, however it may be disregarded by theorists. In the case of the countries of the Latin Union and the United States, it was not possible, without great loss to the budget and an economic upheaval, to substitute gold currency for the silver in use. It was possible to rescue the gold standard from disaster by taking under Government control the output of silver coins, and thereby removing the premium offered to the owners of silver bullion to deluge the country with their product at the expense of its monetary system. France elected, or rather was compelled by the force of circumstances, to keep in use her two thousand millions of francs of silver rather than to replace it by gold. The United States, realizing perhaps intuitively the difficulty of withdrawing gold from nations which were then stronger than herself in the competition for surplus capital, pumped silver into her currency until the danger point was reached and passed, and even reasonable bimetallists were compelled to admit that the continuation of silver purchases, instead of promoting bimetallism, would cast the country upon the reef of silver monometallism.

The most attractive feature of the bimetallic doctrine is the theory of compensation, by which the fluctuations in the supply

[1] International Conference of 1881, p. 45.

and the value of one metal are supposed to be compensated by the fluctuations in the opposite direction of the other metal. This theory, in the words of Professor Foxwell, rests upon

> the general presumption that where you have two sources of supply, each equally likely to fluctuate in quantity, the joint supply would be more stable than either of the separate sources.

This, he declares,

> is the principle upon which you would go in choosing to select for a water supply two sources rather than to leave yourself dependent upon one, provided that there were no reasonable presumption beforehand that both sources of supply would follow exactly the same variations.[1]

Unfortunately, even if this theory were well founded, it cannot be worked out in practice without imposing upon one nation or another the function of a sink for the cheaper metal. France would undoubtedly have acted as a parachute for the fall of silver if she had continued after 1873 to keep her mints open to the free coinage of the white metal, but in doing so she would have witnessed the flight of all her gold to those countries which preferred the gold end of the compensation to the silver end. Between France and any group of other nations, the law of compensation would have kept the aggregate supply of money at nearer its old value than if France and all other nations had adopted gold and disposed of their silver, but the nations which excluded silver from their monetary system would have received the bulk of the gold, and France would have been burdened with practically all the silver.

An interesting suggestion for obtaining the benefits of the law of compensation, without the evils of concurrent free coinage for two metals of fluctuating value, was made some years ago by Professor Léon Walras in a little pamphlet entitled *Théorie de la Monnaie.* He frankly rejected the contention of the bimetallic school that it was possible by law to give absolute fixity of relation to two different commodities. He proposed that whichever happened for the moment to be the cheaper metal should be

[1] Professor H. S. Foxwell's Evidence before the Royal Commission on Agriculture of 1894, Q. 23, 838.

treated as a token coin, — that its free coinage on private account should be suspended, and that its output should be regulated by the Government. Admitting the necessity for the adoption, under present conditions, of a new ratio between gold and silver, he maintained that silver should be coined by the Government whenever there developed a scarcity of money as indicated by a low mean of prices, but that such coinage should cease before the security of the standard was threatened by the excessive exportation of the standard metal. Carried thus far, his project was not beyond the pale of the world of realities. He proposed, however, in making the project of universal application without regard to time or space, that if gold should again fall below silver at the coinage ratio, then the mints should be closed to the free coinage of gold, and its output should in turn be regulated by the Government. An international agreement he conceded to be necessary to carry out this system without inviting the evils which would follow an excessive coinage of the undervalued metal by any one nation. He declared that otherwise,

> if the Latin Union alone resumed the coinage of crown pieces, the first effect of this resumption would be to make all its gold drift abroad, and to leave it deprived of its standard money.[1]

Professor Walras pointed out that if these evils were restricted by an international agreement, it would be necessary also that the principal monetary powers should regulate their issues of Government paper and of legal tender bank notes in the same way as their output of token coins, or the control of the variations of the value of money would prove illusory. In this theory, so thoughtfully worked out by Professor Walras, lies probably the intelligent diagnosis of the end towards which the leading countries with the limping standard have, under the pressure of events, been blindly groping. Each of those countries has contributed towards diminishing the pressure upon gold, and towards the prevention of undue changes in the relations of the stock of money to commodities, by keeping in circulation token coins of full legal tender power up to the limit of the amount demanded by the needs of trade.

[1] Théorie de la Monnaie, p. 80.

It is hardly necessary to combat the extreme form of the bimetallic theory, which came to the front in the United States in the silver campaign of 1896, that prices are regulated by nothing but the volume of the standard money, and that in meeting the pressure for currency all substitutes and economies count for nothing. Common sense indicates that if the quantitative theory of money has any force, prices must be higher if a community has a currency stock of $1,000,000 in gold, silver, and paper than if it has only one-quarter as much, even though the latter be entirely in gold. Intricate as is the problem of the relation of money to prices, there can be no such contention intelligently maintained as that all economies in the use of standard money have no influence in accomplishing the ends for which they have been devised, in diminishing the demand for money and increasing its efficiency.

On its practical side the plan of Professor Walras has been unconsciously followed by the countries of the Latin Union and the United States. They have encountered difficulties, however, which justify a careful examination before the limping standard can be recommended for adoption in any new coinage project. These difficulties may be grouped thus:

1. The great difference between the bullion value and the face value of the token coins.

2. The lack of adaptability of the token coins to trade requirements in the advanced countries.

3. The excess in supply of the token coins, or at least the lack of automatic responsiveness in their amount to the needs of trade.

I. The difference between the bullion value and the face value of the coins of the Latin Union and the United States is an almost insuperable obstacle to the substitution of a pure gold currency for these coins, and exposes them to great danger of counterfeiting. The coins are now worth only about forty-five per cent of the value for which they pass in retail trade, and may be legally tendered in payment of contracts expressed in money. No loss to the creditor accompanies these conditions, but a heavy burden is imposed upon the credit of the state in keeping the coins at their face value. It was estimated in 1898 that France, if she had attempted to convert her silver coins into pieces corre-

sponding to the market price of silver bullion, at the ratio of 35 to 1, would be subjected to an expense of about $235,000,000.[1] Such an expense has inevitably deterred her from withdrawing her old five-franc pieces and selling them for gold. The profit in counterfeiting such pieces is more than one hundred per cent, even when the counterfeits contain the full amount of fine silver contained in the official coins. Many such counterfeits have been found in the United States, some of them containing a fraction more of fine silver than the amount required by law, and their wide distribution has been prevented chiefly by the fact that the official coins do not circulate widely, and any suspicious appearance of new pieces in circulation in a given neighborhood would quickly attract the attention of the agents of the Secret Service.

In a country inaugurating a limping standard system under present conditions, no such wide departure of the bullion value of the silver coins from their face value need be permitted as has come about in France and the United States. When Japan adopted the gold standard in 1897, the ratio between gold and silver was fixed near the market ratio of the two metals.[2] This took away any unusual temptation for counterfeiting, and permitted the resumption of gold payments without disturbing the relation of prices and contracts existing at the time. A similar policy was that recommended by the House Committee on Insular Affairs in the Fifty-seventh Congress, for adoption in the Philippine Islands. Mr. Cooper, the Chairman of that Committee, said regarding the proposed coinage plan:[3]

The proposed coin would be of substantially the same size as the coins now in use in the Philippines. It is made somewhat lighter than the Mexican silver dollar, in order to prevent its rising above fifty cents in gold in case of a considerable rise in the gold value of silver bullion. Containing as it does 385.8 grains of silver of the fineness

[1] Darwin, Bimetallism, p. 51.

[2] The report on the bill declared that "it would be well to raise the rate for our purpose a little, and fix it at one of gold to thirty-two and a fraction of silver"; but the actual silver coins were made only eight-tenths fine, in order to prevent their exportation in case of a rise in silver. — The Adoption of the Gold Standard in Japan, p. 187.

[3] Administration of Civil Affairs in the Philippine Islands, House Report 1540, 57th Congress, 1st session, p. 7.

of 0.835, it is issued at a ratio to gold of about 27½ to 1, instead of being issued at the rate of 16 to 1, which is the rate of the coinage of the standard silver dollar of the United States. The new coin is theoretically issued at the ratio of 32 to 1, or at half the value given to silver in relation to gold by the American coinage law; but it was not thought desirable to coin it exactly at this ratio, because of the possibility that a marked rise might occur in future in the price of silver bullion. If such a rise should carry silver to its bullion value in gold, the coins would be more valuable as bullion than as coin, they would be withdrawn from circulation, and the islands would be subjected to all the evils of a famine in their currency supply. Ample provision is made against such a rise in the price of silver by the margin of about 20 per cent between the exchange value of the coin at the ratio of 32 to 1 and the amount of pure silver which the coin would contain.

It is unquestionable that if the limping standard is to be made applicable to the conditions encountered in the Orient, it must be by the recognition of a new ratio between gold and silver corresponding in some degree to the recent market ratio. The countries of the Latin Union and the United States, burdened with many millions of silver, coined at the old ratio of 15½ to 1 and 16 to 1, have to deal with a condition whose difficulties they must meet in the best practicable manner; but the limping standard, in its theoretical application, must take some account of the market value of silver, although it furnishes means of guarding against the fluctuations of this value.

II. The lack of adaptability of large silver coins to the requirements of trade in the advanced countries has become very clear as wages have risen and wealth has increased. Such a progressive development causes a natural evolution from a cheaper to a dearer money metal. Silver was once much more valuable in its relation to gold, to commodities, and to labor, than it is at the present time, even at the legal ratios of 15½ to 1 and 16 to 1. When the power of money over commodities was five or six times what it is at present, silver was much more suited to the purposes of money than under modern conditions. As the Vicomte D'Avenel declares:[1]

[1] La Fortune Privé à travers Sept Siècles, p. 64.

The diminution of the purchasing power of the precious metals has rendered silver inconvenient and unsuited to a multitude of uses which it formerly served. The same object which could be obtained in the year 1400 or in 1500 for one thousand grammes of silver would demand to-day five thousand or six thousand grammes. A kilogram could be carried in the pocket, and five or six kilograms in one's valise; but one objects to five or six kilograms in the pocket, and twenty-five or thirty in the valise.

The situation differs, however, in the undeveloped countries of the Orient from that in the wealthy countries of the West. A currency which contains a large proportion of gold coins is better adapted than a currency of silver to the needs of a wealthy country; but a currency which contains a large proportion of silver coins is best adapted to the needs of a poor country. This is because the standard of wages and prices is higher in the rich country than in the poorer. In British India, China, and the Philippines, where the wages of skilled labor are forty cents a day in silver, or twenty cents in gold, a pure gold currency would leave the average laborer in about as convenient a position in making his retail purchases as Mark Twain found himself in with his million-pound note.

The smallest practical gold coin represents in the Orient the value of one dollar, or the pay of five days' labor. It is obvious that convenience as well as necessity would lead countries under such conditions to a large use of silver currency in preference to the attempt to retain and use a pure gold currency. To neglect of this element in the monetary problem are probably due some of the embarrassments which have been felt in Japan since the introduction of the gold standard; and it may be questioned whether Russia has not vaulted too far, in view of her present standard of wages and national wealth, in adopting the pure gold currency of her richer rivals, Great Britain and Germany.[1]

[1] The Russian delegate at the International Conference of 1881, fifteen years before the adoption of the gold standard in Russia, called attention to the fact that half of what Russia, Austria-Hungary, and Italy would require for the resumption of specie payments would be found if the gold pieces equivalent to ten francs ($2.00) and below were transformed into silver pieces. — Russell, International Monetary Conferences, p. 287

III. That France and the United States have suffered materially from their excessive stock of overvalued silver coins, hardly admits of serious dispute. In the United States a serious panic was invoked in 1893 by the large infusion of silver into the currency beyond any natural demand. The excess of silver tended to expel gold and to destroy the gold basis of the currency system. The difficulty was due, however, to the fact that the Secretary of the Treasury was required by law to purchase silver bullion to the value of $4,500,000 per month, and issue circulating notes for this silver without regard to the need for currency in the markets. The moment that the supply of silver or silver notes passed the limits of the normal demand, a progressive deterioration of the currency set in. Assuming that the requirement for currency was a constant quantity, every dollar of new silver added to the circulation tended to expel a dollar of gold. This obviously need not occur under a proper regulation of the output of token coins by the Government.

The essential evil of the token coinages of France and the United States, which has naturally cast discredit upon their monetary systems, is that their token coins have been issued far beyond the demand for them in the channels of trade, and, therefore, far beyond the limit of safety. Both countries have outgrown the prejudice in favor of specie over well-secured paper. Proof of this has been afforded in France by the steady accumulation of silver in the vaults of the Bank of France. From 1869, when the maximum silver holdings of the Bank were 593,300,000 francs ($115,000,000), the silver rose in 1880 to a maximum of 1,282,-500,000 francs ($248,000,000), and has ever since oscillated around this figure. There has been no substantial increase in the demand for the white metal for circulation, in spite of the share which has fallen to France of the great increase in the world's volume of trade since 1880. As M. Noel declares:[1]

In virtue of the economic law which tends to simplify methods of payment, silver was at first less sought and then neglected by the pub-

[1] Les Banques d'Émission en Europe, I., p. 183. — The maximum silver holdings of the Bank of France in the year 1901 were 1,124,400,000 francs ($217,-000,000), and the average was 1,105,900,000 francs. — *Bulletin de Statistique* (February, 1902), LI., p. 212.

lic, until it naturally drifted to the private banks and from them to the Bank of France, which serves them as a reservoir. Of the two thousand five hundred millions of silver which France possesses, nearly half is immobilized in a permanent manner in the reserves of the Bank, from which it never comes out unless to immediately return.

In the United States the proof that the era of silver has gone by is afforded by the failure of repeated efforts to increase the amount in circulation and the ready acceptance of paper certificates for the coined pieces. The circulation of standard silver dollars was $67,547,023 at the close of December, 1891, and the highest point attained during the succeeding ten years was only $73,113,520 on October 31, 1901. The circulation of silver certificates, on the other hand, rose from $320,817,568 on December 31, 1891, to $457,154,585 on March 1, 1903. Discredit is inevitably cast upon the silver coins of these countries because they are not exchangeable for the standard metal and they were issued at an antiquated ratio, which makes their bullion value much more disproportionate to their face value than ought to be the case. Each of these countries, burdened with a mass of silver issued at the ratio of $15\frac{1}{2}$ to 1 or 16 to 1, is compelled to deal with conditions as they are, and to maintain its token coins at parity by such measures as suggest themselves without imposing too heavy a burden upon the public Treasury. A government inaugurating a token coinage for the first time would properly choose a very different ratio between gold and silver, and would take measures to check the output of token coins whenever the quantity threatened to flood the channels of the Treasury receipts, or to impair their fixed relation to the standard.

The advantages of the limping standard, under intelligent direction, may be thus summed up:

1. Diminution of the pressure upon the world's supply of gold.
2. The maintenance of the par of exchange between Oriental and Western countries.
3. Adaptability to poor or undeveloped countries.
4. The opening of markets for silver, with the result of steadying its value.

I. The limping standard has become since 1873 the standard of several of the leading commercial nations of the world. These

nations are France, Belgium, Switzerland, and the United States. The principal countries which adhere positively to the gold standard, with the use of silver only as a limited legal tender, are Great Britain, Germany, and Russia. These seven nations represent a very large proportion of the wealth and commerce of the civilized world, and the influence of their policies upon the stock of money metals is necessarily great. Of the total gold money of the world, they hold almost precisely four-fifths, and even of the silver money they hold nearly sixty per cent, outside the great stocks of China and India. The part which is played by gold and silver in the monetary systems of these seven leading nations may be inferred from the following estimate from official sources of their stock of metallic currency on January 1, 1901:

	Gold Coin.	Silver Coin.
Limping Standard:		
France	$ 810,600,000	$ 421,200,000
Belgium	17,800,000	35,000,000
Switzerland	24,000,000	10,700,000
United States	1,110,800,000	655,800,000
	$1,963,200,000	$1,122,700,000
Gold Standard:		
Great Britain	$ 511,000,000	$ 116,800,000
Germany	721,100,000	208,400,000
Russia	724,300,000	102,500,000
	$1,956,400,000	$ 427,700,000

These figures show that while the countries with a pure gold standard are compelled to make considerable use of silver, their silver stock is less than twenty-two per cent of their gold stock, while in countries where the limping standard prevails the silver coinage is more than fifty-seven per cent of the standard coins of gold. If the continued use of both metals, therefore, has contributed to steadying prices by maintaining that law of compensation in the relative supply of the two metals, upon which bimetallists so much rely, it may be fairly contended that the maintenance of the limping standard in these four representative countries has obviated the need for nearly $700,000,000 in gold coin, and thereby diminished by that amount "the scramble for

gold" which bimetallists consider to be so serious a result of the general adoption of the single gold standard.

II. The interruption of the old par of exchange between the gold standard countries of the West and the silver using countries of the Orient has been one of the most disturbing features of the fall in the value of silver. The evils which it has caused were forcibly set forth by General Walker in his discussion of the subject in 1896:[1]

> Such fluctuations in the relative values of the two money metals continually involve international trade in embarrassment and disturbances of a most serious character, and often reduce it to mere gambling. Without some tie which can hold the two metals at least near to each other, during the time between the manufacture and sale of commodities and the receipt of the proceeds, the producer in a gold country can never tell for how much silver he must sell his goods in order to make himself whole and perhaps win a profit. The range of possible losses or possible gains from this source is such as to be altogether out of proportion to the range of the ordinary chances of industrial and commercial enterprise.

It is correctly declared by Major Darwin that

> though it is possible to insure against many of the risks which are thus experienced, the price paid for the insurance constitutes a true burden on trade.[2]

The insurance proposed by the bimetallists against these fluctuations has been that all nations — whether rich or poor, whether their unit of pay for a day's labor was two dollars or twenty cents — should be chained upon the Procrustean bed of free coinage for both metals. A better insurance is offered by the system of the limping standard. The logic which makes silver the most useful form of currency in undeveloped countries points out the natural course to be pursued by those countries in the future in adapting their monetary systems to modern conditions. It is possible for all these countries to adopt the gold standard, while retaining silver in daily use. They thus obtain one of the essential advantages claimed for bimetallism by abolishing the fluctuations

[1] International Bimetallism, p. 139   [2] Bimetallism, p. 132.

of exchange between gold and silver countries caused by the depression of silver, without drawing heavily upon the world's stock of gold.

Unconsciously this theory has been worked out in British India, where use is found for nearly $500,000,000 in full legal tender silver, but where all this silver is maintained at a fixed ratio to gold. The British Government by the Act of 1899 established a gold fund in India and at London, for the purpose of maintaining the parity of the standard silver coin with gold. This coin, known as the rupee, contained silver worth originally a little less than fifty cents in American money, but it fell gradually to nearly the level of silver bullion until 1893. In that year, as the result of the report of the Indian Currency Commission, the free coinage of rupees was suspended, and the attempt was made to fix their value at sixteen pence, or about thirty-two cents in American money. At first the experiment was difficult. There was a surfeit of rupees, and they poured out in great quantities from hoards when it was found that their legal value had been raised above their bullion value. The Government, however, persevered in selling exchange on India at London as near the new ratio as could be obtained, and in receiving the rupees at that ratio for public dues. Under ordinary conditions these measures would almost of themselves have maintained a limited silver coinage at par with the standard. While this result was delayed in India, it was so completely achieved by 1899 that in that year the Indian Government felt strong enough to establish a gold reserve and offer to deliver silver rupees for gold. The offer was not made at first to pay gold for rupees, but it was soon found that the limitation of the coinage had created a demand for rupees which drew gold into the Treasury instead of drawing it out. Commenting upon these conditions, the Secretary to the Government of India said in his financial statement for 1900–01:

> We have frequently been told, and with perfect justice, that we could never claim to have a true gold standard in India until we were prepared to exchange gold for rupees as well as rupees for gold. By being prepared to exchange, I do not mean that we should accept a legal liability to give gold for rupees, but that in practice, as for example in France, anybody who wanted gold for internal purposes

should be able to obtain gold freely without let or hindrance. Theorists, indeed, argue that neither France nor the United States possess a gold standard in the full and complete sense of the words. But I think no one will dispute that if we can advance to the same position as France we shall have attained a gold standard for all practical purposes. A year ago it seemed that we should probably have to sit for a long while under the reproach of our critics, and put up with what has been termed an "exchange standard." It then appeared impossible that in twelve months we should be paying out gold to anybody who asked for it. We are doing so now. Whether we shall be able to continue to do so without check or interruption, whether now that we have once started giving gold for rupees we may not have to suspend temporarily, is not a matter about which confident prediction can be made. But it would be reasonable to say that the auguries are not unfavorable for our being able to pursue the path on which we have entered. Our position in respect of gold is strong. In India and London we have accumulated nearly £8,600,000.

In Japan the same system of a silver coinage on a gold basis prevails to some extent. It is perhaps a weakness rather than a strength of the Japanese system under existing conditions, that the silver coins are not full legal tender, and that a determined effort has been made to introduce gold coins into common use. The coinage of the silver yen, of about the size of the American standard dollar, was discontinued with the adoption of the gold standard, and the largest silver piece now issued is for a half yen, or fifty sen. While the Japanese system constitutes the logical application of the gold standard, it represents even more than the gold standard of Russia a somewhat adventurous vault by Japan into the circle of the wealthiest and most advanced commercial nations. The gold standard has been successfully maintained in Japan, in spite of some obstructions growing out of over-speculation; but it may be questioned whether she would not have pursued the truest economy by following the system of British India, in introducing a gold standard instead of the actual use of gold.

III. For undeveloped countries the use of silver in large amounts is a vital necessity, and it usually comes into use, even in the face of hostile laws. Silver is the usual medium of exchange in Java, where a gold standard exists with hardly any gold in use, and it

is the universal medium in China and other parts of the Orient, even though the coins have to be sought in a foreign and distant country.

The advantage of a token coinage for comparatively poor or undeveloped countries is the same as the advantage of paper credit: — it permits an economy of capital. The token coins are less expensive than coins of the standard metal, both by the margin between their face value and their bullion value, and by the fact that they are made from the metal for which competition is less severe. A country employing a large volume of token currency is not in danger of losing such a currency by exportation. The coins cannot be melted up for their face value. While they may have the character of gold exchange on the country where they are issued, they can only be converted into gold by sending them back to that country in the form of coin when they drift abroad.

The maintenance of a token currency, instead of one entirely coined from the standard metal, is an interference to a limited extent with the automatic play of the self-interest of individuals which prevails under free coinage, but all coinage systems are the result of official action taken to promote the convenience of the community. Constant intervention by the government is a part of the existence of any system, even where free and gratuitous coinage on private account is authorized by law. The advantage of a token currency maintained constantly at par with the standard metal is that the government takes upon itself the responsibility for maintaining the par value of the token coins by means of a gold reserve, and takes the necessary steps by the issue of a loan or by taxation to maintain this reserve. The government interferes with the law of natural selection which would lead the individual to dispense with currency in order to obtain some more necessary form of capital, but in doing so brings a real advantage to the community by maintaining an adequate medium of exchange where it would not be obtained under a system of free coinage of the standard metal without token coins. In this, as in many other matters, the Government may properly intervene to obtain a benefit of great importance to the community as a whole, but of a character which would not result from the free

play of self-interest among individuals, and could not result from it except by concerted action.

It is a principle now generally admitted, that in order to prevent exportation the subsidiary coins of any country should not be of their full face value. The extension of this rule to token coins of full legal tender power is preferable to going without an adequate currency, if the parity of such coins with the standard can be made unquestionable. In spite of the somewhat artificial nature of such a project, a proper system of token coinage, with adequate provision for supplying gold for export, would operate in substantially the same manner as a coinage consisting entirely of the standard metal. When an excess of the token currency was in circulation, it would come to the Treasury offices for redemption in gold, thereby reducing the amount of token pieces in circulation, and permitting the surplus withdrawn from the Treasury to be exported in the metal of international trade. When, on the other hand, a deficiency of token currency was disclosed by the demand for it, the deficiency would be corrected by the importation of the standard metal and its presentation for exchange into the token coins. This is the principle which has been adopted with such success in India, and which would probably be found efficient in all the countries of the Orient.

It cannot be properly said that such a well-organized system of token coinage involves any other departure from security or sound monetary principles than is involved in other extensions of credit designed to economize the use of the standard metal. The principle is the same as with the issue of bank notes upon a coin reserve, and involves the application of the same banking principles in the regulation of the quantity of the currency and in keeping intact the reserve necessary to maintain the credit issues at an equality with the standard. Undoubtedly, from a theoretical point of view, a token issue of credit paper secured by a proper gold reserve has most of the advantages of a token coinage of silver, and has also a much greater economy. So far as paper is adapted to economic conditions and popular prejudices, it should be introduced in preference to token coins, especially for currency of the larger denominations. The poverty of Japan and her inability to maintain gold in actual circulation have re-

sulted in the wide use of paper, even down to the denomination of one yen (49.8 cents).

The practical problem, however, with which statesmen have to deal, is the prejudice of the peoples of the East, and many of those of the West, for a currency of ringing metal rather than one of paper. The recognition of money as a commodity is instinctive among primitive peoples, and leads them to prefer a form of money which possesses tangible value in itself, and permits a more satisfying form of ostentation than the display of a roll of bank bills. The adoption of a token coinage, possessing an exchange value approximating its bullion value, promises to be the most important step which can be taken in our time in educating the undeveloped peoples to the true function of money and credit, and the final evolution of a bank note currency resting upon an adequate gold reserve. Metallic tokens cannot be entirely dispensed with, even among the advanced nations. There are reasons connected with the standard of wages and living, and the risks of destruction by weather and insects, which make them naturally preferable to paper in certain tropical and undeveloped countries. Where the bullion value of the coins, moreover, is only slightly below their face value, a token coinage gives more solidity to the currency system, and is less likely to result in demands for the standard metal, than the premature adoption of the highly organized gold-credit currency systems of the nations of the West.

IV. Injurious as the limping standard has proved in some respects to the monetary interests of the countries of the Latin Union and the United States, the logic of events has perhaps, as already suggested, been wiser than abstract theory. If the single gold standard had been adopted in all countries in the form in which it prevails in Great Britain, without regard to their scale of wages and prices or their surplus capital available for investment in the tool of exchange, there would undoubtedly have been a much more severe pressure upon the world's supply of gold than has actually been felt. This pressure would probably have drawn the metallic medium of exchange to the richer countries from the poorer, and left the latter impoverished in their means of carrying on transactions.

It would have caused a still further fall in the value of silver by diminishing the demand for it. But a large market would be opened for the white metal if the limping standard should be adopted upon a scientific basis in the countries which are now without a currency, or are laboring under the difficulties in their relations with gold countries caused by the single silver standard. Such a system would be an almost unlimited blessing to these less advanced countries for many years to come, and would make their transition to a gold currency almost absolutely automatic if the scale of wages and living increased the demand for gold and checked the demand for silver. The operation of a proper Treasury redemption system would disclose from time to time the demand for either metal, and the coinage of silver could be enlarged or suspended as the demand for it rose or fell. If silver gradually fell into disuse by a rise in the scale of wages and national wealth, the suspension of coinage could be continued indefinitely, as at present in the countries of the Latin Union, and all increments to the metallic circulation would be made thereafter in gold.

Perhaps the most interesting deduction to be drawn from what has preceded relates to the provision to be made for their future monetary systems by Mexico and China. Mexico lingers almost alone under the domain of the silver standard, and her merchants, as a result, suffer from all the fluctuations in exchange and the timidity in the entry of foreign capital which have marked the recent history of other countries which have hesitated to adopt the gold standard. By means of the limping standard it is possible for Mexico and China to adopt a gold basis for their currency without imposing any serious pressure upon the world's supply of gold, or subjecting themselves to a heavy loss in marketing their silver. In the case of Mexico, it would only be necessary to adopt a new gold coin representing about the present gold value of the Mexican silver peso, and to substitute for the peso a new silver coin of about the same weight as the old. Mexico is in an unusual position in respect to her silver pesos, in that they constitute the circulation of China, the Straits, and other parts of the Orient. She could not afford to give a fixed parity to her old coins, because if this parity were even a fraction above the gold

value of the coins she would have to deal not only with her own circulation, but with that of the entire East. If she offered to exchange gold for silver, or even to receive the old coins at a high gold parity for public dues, she would invite a deluge of silver in exchange for gold with which even the strongest nation could hardly cope. By substituting a new coin for the peso, however, and making only the new coin receivable for public dues, and redeemable in gold at the new official ratio, she would avoid the disturbance to wages and prices which would follow the adoption of a new unit, or the attempt to raise her existing coins to a gold footing.

In China the possibility of establishing the gold standard would possess the fascination of one of the most interesting experiments ever tried in economic history, worked out upon a field larger than that presented by any other country of the world. It probably would not be advisable for China to undertake for many years to offer gold for silver on demand, but if a distinctive national coinage of silver were established, it could be maintained substantially at a gold par. Great quantities of this silver would undoubtedly be absorbed in the interior trade of the country, especially as it developed under the stimulus of Caucasian enterprise. The only points at which the silver coins would come in contact with the gold standard would be at the treaty ports. If they were received everywhere in China, however, for public dues, at a fixed gold parity, they would rarely sink anywhere materially below their gold value. The Chinese Government, in regulating the output of new silver coins, would be able to rely upon the fluctuations in foreign exchange at the open ports. Under such a system the fluctuations of exchange might be somewhat wider than between two gold standard countries, but if the issue of silver was suspended whenever the exchange was unfavorable these fluctuations would probably not be great. It would be possible, moreover, to establish at the treaty ports small gold funds, or to sell drafts upon gold funds at London and the other commercial centres of the West. These gold resources could be employed sparingly by the Chinese Government to provide gold for export, and thereby to maintain something like a par of exchange without holding out the offer to give gold to all comers.

This would be practically the system pursued by the Bank of France and the Government of British India.

The necessary condition of such a system is Government control of the coinage. It is this which differentiates the limping standard from free coinage, and permits a value to be given to coined money, which is different from its value as bullion because of the specific demand for coined money as a medium of exchange and in the execution of legal tender contracts. The importance of this principle, that limitation of the quantity of a commodity in the face of a given demand will raise the value of the commodity, has too often escaped the attention of the advocates of unlimited issues of silver and of Government paper. Just so much currency as is needed for use at its current value will be absorbed by the community without depreciation in its value. In the case of money, when the quantity exceeds the complex demand, depreciation in value sets in, — first in the rate paid for the rental of money, which draws the surplus abroad to earn higher returns if the money is of a sort accepted everywhere; and second, in the depreciation of its exchange value if the excessive quantity continues to confront only a limited demand. Government control of the tools of exchange involves dangers which are not to be lightly put aside; but under such a system as is here proposed, there would be little temptation to issue token coins in excess of the demand, because the profit would not be large, and the penalty would be swift in coming, and glaringly plain to the public, in the flight of gold, and the imminent risk that the par of exchange would be broken with all other commercial nations.

In some such system as this, which links silver to gold by measuring the value of the cheaper metal in the dearer, is to be found the most scientific and the most practicable solution of the monetary problems of the future in the countries which are being opened to the influences of Western civilization. The difficulties of wide fluctuations in exchange are swept away, or at least greatly minimized, without imposing upon either the gold or silver countries of to-day a system ill adapted to their domestic needs. It was declared by the British Gold and Silver Commission of 1888:[1]

[1] United States Senate Misc. Doc., 34, 50th Congress, 2nd session, p. 85.

Everything which hampers complete freedom of intercourse between two countries, or which imposes on it any additional burden, is undoubtedly an evil to be avoided or removed, if possible. If, therefore, a remedy could be devised to accomplish this end without involving the risk of other disadvantages, there cannot be two opinions that it would be worth while to apply such a remedy.

To this declaration Major Darwin makes the addendum that

Either bimetallism or universal monometallism would, without doubt, effect a complete or almost complete cure, and the question in each case is whether the remedy is practicable, and whether its accompanying disadvantages do not outweigh its undoubted merits.[1]

The "accompanying disadvantages" have thus far proved too serious to permit the extension of a pure gold currency or of bimetallism throughout the world. The experience of British India, and the plan adopted by the United States for the Philippine Islands, point the way for another solution of the problem more in harmony with local conditions in all countries and with the historical evolution of money. This system not only affords a uniform monetary standard for foreign trade among all nations, but has many of the advantages attributed by its advocates to bimetallism in compensating the scarcity of gold by opening the reservoir of the world's supply of metallic money to the steadying current of silver, with the limitation, however, only that the sluice gates may be closed if the new current threatens to raise the common stock above the level of safety, and to spread ruin over the fertile fields of commerce by driving the standard metal from the reservoir, and supplanting it with the more volatile.

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[1] Bimetallism, p. 133.

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